

Harry E. Hasselmann, Jr.
Executive Vice President & General Counsel

July 20, 2004

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the
Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Re: Docket No. OP-1196

Dear Ms. Johnson:

This comment letter is submitted on behalf of Vital Processing Services ("Vital") in response to a request for information made by the Federal Reserve Board ("FRB") in connection with its study about the disclosure of certain debit card fees. Specifically, the FRB has requested comment on whether existing disclosures required by the Electronic Fund Transfer Act ("EFTA") and its implementing regulation, Regulation E, adequately inform consumers of fees imposed by a financial institution that holds the consumer's deposit account, and has issued a debit card to the consumer, when the debit card is used to make a purchase from a merchant at the merchant's point of sale ("POS"). The FRB also seeks comment on the need for, and the potential benefits of, requiring additional disclosures in each periodic account statement to reflect fees imposed by the account-holding institution for such debit card use. Vital appreciates the opportunity to comment on these very important issues.

Vital recognizes the importance of ensuring that consumers are aware and adequately informed of fees charged to their accounts in connection with debit card transactions, including those where consumers use a personal identification number ("PIN"). However, we believe that existing disclosures required of financial institutions by the EFTA and Regulation E adequately inform consumers of such fees. Accordingly, Vital does not believe that any additional disclosure of PIN-based debit transaction fees is necessary in periodic account statements provided to consumers. Furthermore, as discussed in greater detail below, Vital strongly opposes the adoption of any scheme that would require real-time disclosure of PIN debit transaction fees at the POS, because of prohibitive retooling costs and a myriad of technical issues that would result from the implementation of such a scheme. Moreover, we believe that efforts to implement such real-time POS PIN debit transaction fee disclosures could threaten the performance of the overall POS payment systems.



Vital Processing Services
8320 South Hardy Drive
Tempe, AZ 85284-2007
T 480 333 7600

www.vitalps.com

Real-Time POS PIN Debit Fee Disclosure

Vital believes that any attempt to mandate the real-time disclosure of PIN-based debit card transaction fees charged at the POS by card issuers would require dramatic changes in the processing of PIN-debit transactions throughout the merchant processing industry. In a general sense, the issues associated with real-time PIN debit transaction fee disclosures at the POS are analogous to those issues highlighted in a July 2000 report by the General Accounting Office (“GAO”) evaluating the feasibility of implementing real-time disclosure of “foreign” ATM transaction fees.¹ In its report, the GAO concluded, in part, that real-time disclosure of foreign ATM transaction fees would require heavy investments to retool ATM processing systems to disclose issuer charges for “foreign” transactions.* We do not dispute the finding of the GAO report that extensive and expensive restructuring by all ATM industry participants would be necessary to implement real-time foreign ATM fee disclosures. However, with more than 4 million POS debit terminals in the U.S., as compared to 350,000 ATMs, we believe that the technical barriers and financial costs associated with the implementation of real-time POS PIN debit transaction fee disclosures, including incompatible processing architectures, the degradation of transaction processing time and the fundamental retooling of the POS payment system as a whole, vastly outweigh similar concerns in connection with ATMs. In fact, the difficulty and expense associated with the implementation of real-time POS PIN debit transaction fee disclosures would dwarf similar costs associated with real-time foreign fee disclosures at ATMs.

Incompatibility of Processing Architectures

The ATM processing environment and the POS processing environment operate under fundamentally different architectures. ATM networks are typically run from host-based technology environments as opposed to the logic of the application that drives most POS debit terminals, which generally resides on the terminal itself. This means that reprogramming terminals to request and display an issuer fee on PIN debit transactions would require developing new applications and downloading them to every terminal in the market, even assuming that existing terminals are sophisticated enough to accommodate and employ such applications. With literally thousands of applications supporting hundreds of different types of terminals in the U.S. market, the investment to modify, test and document any one of these applications would result in substantial expense and take months, if not years, to develop and prepare for implementation.

Even if this could be accomplished, however, it is not clear that the majority of POS terminals currently employed in the U.S. market could accommodate the additional programming required to support disclosure of issuer-based fees at the POS. The majority of deployed terminals are older devices with limited functionality—operating with very limited memory and processing capacity. Therefore, a review of each existing terminal and its underlying application would be necessary to determine which terminals are even able to support additional functionality. Nevertheless, even if such a review of the existing POS debit

¹ *Automated Teller Machines: Issues Related to Real-time Fee Disclosure*, GAO/GGD/AIMD-00-224 (July 2000).

² *Id* at 2.

infrastructure could be successfully accomplished, we believe that it would be difficult, if not impossible, for merchants to replace existing POS debit terminals and supporting application software in a uniform and timely manner, particularly given the demonstrated unwillingness of merchants to upgrade their extensive network of POS debit terminal equipment in order to take advantage of new functionality.

Based on the current merchant market, we understand that more than 75 percent of the 4 million POS debit terminal devices in use do not have the requisite upgrade capacity to handle the additional functionality required to affect any real-time transaction fee disclosures, even assuming that the information required to provide such disclosures becomes available. Therefore, to implement any real-time POS PIN debit fee disclosure, it would be necessary to retrofit such merchants with new terminals that have sufficient memory and CPU processing capacity to accept essential upgrades. However, new POS debit terminal equipment would result in merchant costs of \$300 to \$400 per device — unfairly burdening merchants with substantial additional costs. That is to say, merchants would be required to collectively shoulder the burden of replacing more than 3 million POS debit terminals nationwide at costs of at least \$300 per device, for a total expenditure that could easily exceed \$1 billion; again, even assuming that the information needed to make such real-time disclosures was available. As a result, we believe that it would be likely that many smaller merchants, and perhaps larger merchants as well, would discontinue accepting PIN debit transactions entirely, rather than invest in new POS debit terminal equipment.

Incompatibility of Processing Architectures

Vital believes that the technology architecture required to satisfy a mandate to disclose issuer PIN debit transaction fees at the POS could actually jeopardize the speed of the POS payment system nationwide. Issuer PIN debit fees vary not only across, but also within, financial institutions. For example, issuer debit fees can vary within a financial institution based on account types and/or the depth of the consumer's overall banking relationship. Such fees also can vary for individual cardholders based on the frequency of card usage during any given month. Therefore, retrieving the information as to the amount of an issuer fee for a particular PIN debit transaction cannot be accomplished by a look-up from a table maintained by a processor. Rather, a separate transaction message would have to be generated for each PIN debit transaction in an effort to retrieve the amount of the charge from the issuer, even assuming that the issuer will be able to accurately calculate the amount of the fee at the time of the transaction. While it is impossible to estimate the degradation to transaction processing times this additional transaction will cause without further study, we believe that it would be substantial.

In this regard, from the merchant market perspective, any degradation in transaction processing times is likely to be unacceptable. Historically, the merchant market has pushed processors to shorten transaction-processing times to speed the movement of customers through the checkout lane in order to improve customer satisfaction and lower personnel costs. Once again, we believe that merchants may choose to stop accepting PIN debit transactions if new requirements in this area would result in slower processing times that would significantly delay the customer checkout process and increase personnel costs.

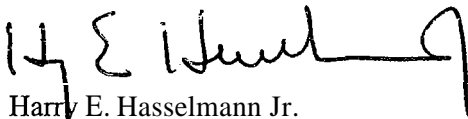
Prohibitive Retooling Costs

Given the technical barriers to effective implementation of real-time disclosure of PIN debit transaction fees, we believe that any attempt to capture such fees, along with the authorization, would require a fundamental retooling of every step in the POS processing system. As discussed above, each individual terminal application would require reprogramming. Moreover, the technical specifications that define communication protocols between terminals and processors also would need to be amended to create additional fields to store the amount of the transaction fee. Since most processors have proprietary specifications, developers of POS applications would have to modify each application for each processor. In turn, processors would have to modify their authorization systems to request and return such transaction fee amounts along with authorization responses. Similarly, debit gateways and electronic fund transfer networks would have to modify their proprietary specifications and processing platforms to handle the additional information requests. Finally, financial institutions would have to modify their debit card processing systems and create a new real-time database of POS transaction fees. With the exception of the card issuer, all of these parties involved in the POS transaction flow would be required to make major investments even though they do not participate in the revenue flow associated with the fees they are disclosing.

In conclusion, Vital believes that the investment requirements, complexity and timeframes to enable disclosure of fees on PIN debit transactions at the POS are vastly more complex and costly to implement than at the ATM. Moreover, the investment required to do so, and the impact on transaction-processing performance, are likely to cause merchants to stop accepting PIN debit cards altogether.

Once again, we appreciate the opportunity to comment on this important matter. If you have any questions concerning these comments, or if we may otherwise be of assistance in connection with this matter, please do not hesitate to contact me, at (480) 333-7604.

Sincerely,



Harry E. Hasselmann Jr.
General Counsel